The Bear Facts

Report Date:
August 22, 2006

Badger Consultants, LLC
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BankUnited Financial Corp.

BKUNA- $26.75 – NasdaqGS

New Recommendation

Recommendation: Sell Short

Reasons For Short Sale Recommendation

- South Florida mortgage focused bank.
- Extensive Option ARM mortgage holdings, 56.8% of total loans outstanding.
- Low reserve level for such risky loans in formerly "hot" markets.
- Regulators could demand higher levels of reserves for these types of loans.
- 82% of interest income is from one to four family residential loans.
- Net interest income and average loan balances have grown rapidly in the last year.
- South Florida has been the poster child for the housing bubble, and is now overbuilt.

Financials

52 – Week Low 10-12-2006	$20.18	Book Value/Shr (mrq)	$19.47
52 – Week high 5-5-2006	$32.00	Diluted Earnings/Shr (ttm)	$2.10
Daily Volume Avg.	538,309	Diluted Earnings/Shr mrq)	$0.62
52 – Week Change	+14.0%	Sales/Shr (ttm)	$7.72
Market Capitalization	**$1.00B**	Cash/Shr (mrq)	$3.04
Shares Outstanding	36.64M	Price/Book (mrq)	1.43
Float	31.71M	Price/Earnings (ttm)	13.01
Profit Margin (mrq)	29.28%	Price/Sales (ttm)	4.03
Operating Margin (ttm)	51.94%	Revenue (ttm)	$252.61M
Return on Assets (ttm)	0.65%	EBITDA (ttm)	NA
Return on Equity (ttm)	12.12%	Debt/Equity (mrq)	NA
Operating Cash Flow (ttm)	NA	Shares Short 7-11-06	3.52M
Leveraged Free Cash Flow (ttm)	NA	% Of Float Short	9.90%
Total Cash (mrq)	$111.19M	Short Ratio	9

(ttm) = Trailing 12 months, (mrq) = Most recent quarter, M = Millions, B = Billions, m = Thousands

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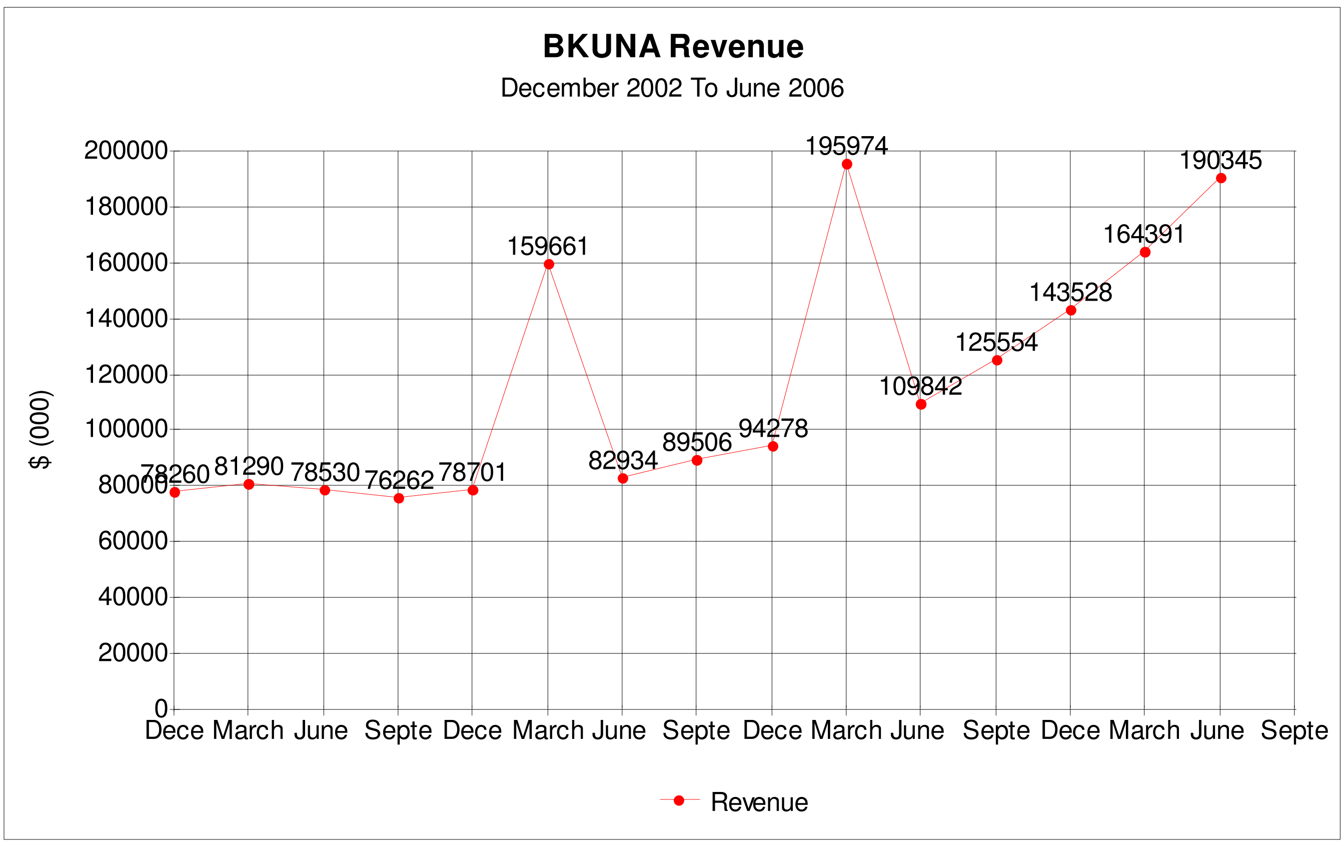
Business Description (10K)

BankUnited Financial Corporation operates as the holding company for BankUnited FSB that provides consumer and commercial banking products and services to consumers and businesses in Florida. The bank offers various deposit products, including personal and commercial transaction accounts, money market and savings accounts, certificates of deposit, individual retirement accounts, and others; and loans, such as one-to-four-family residential mortgage loans, consumer loans, commercial real estate and multifamily loans, real estate construction loans, land loans, commercial loans, and others. It also offers Internet banking, letters of credit, check card, overdraft protection, credit card, and other services. The bank conducts business through automated teller machines, personal computer banking, telebanking, and Internet banking. As of September 30, 2005, the company invested in U.S. government sponsored entity debt securities; debt, equity, and mortgage-backed securities of FNMA and FHLMC; debt, equity, trust preferred, and mortgage-backed securities of private issuers; and municipal bonds. As of March 31, 2006, **BankUnited operated 71 full-service banking offices** located in Miami-Dade, Manatee, Broward, Palm Beach, Collier, St. Lucie, Martin, Lee, Hillsborough County, Punta Gorda, and Charlotte counties in Florida. BankUnited Financial was founded in 1984 and is headquartered in Coral Gables, Florida.



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BankUnited's **results of operations are dependent primarily on its net interest income, which is the difference between the interest earned on its assets**, including the effect of related premium, fees and discounts, **and its cost of funds**, which consists of the interest paid on its deposits and borrowings. BankUnited's results of operations are also affected by its provision for loan losses, gain or losses on sales of loans, other non-interest income, operating expenses and income taxes.

South Florida

BKUNA has three major problems. The first is its location, primarily in South Florida. It has 71 branches in ten Florida counties, including 6 new branches opened in the 2006 third quarter ended in June 2006. According to Barrons "southern Florida has shaped up as the epicenter of the looming glut" and "Florida Communities accounted for 8 of the top 10 investor owned hot spots"

Option ARMs

The second problem is a reliance on the most risky form of mortgage loans. **What sets BKUNA apart from other banks is its reliance on Option ARMs**. These are a relatively new type of mortgage that this bank has very little experience in during a housing slowdown. So not only is BKUNA making residential loans in a bubble market location, it is also making the very riskiest types of loans.

Option ARM loans are adjustable-rate mortgages which provide borrowers flexible payment options and have the potential for negative amortization above the original loan balance when the payment made by the borrower is less than the amount of interest due on the loan. In such a case interest not collected is deferred and added to the principal balance of the loan. When the loan balance reaches a pre-established cap or after five years, full amortization of the loan over its remaining life is required. These loans are subject to interest rate caps.

Interest income reported on loans includes deferred interest on option ARM loans where periodic payments do not cover the amount of interest earned contractually and where the uncollected interest is added to the principal balance of the loans. For the quarter ended March 31, 2006, $19.5 million in deferred interest is included in interest income on loans.

Option ARM loans represented 53.1% and 48.0% of total loans outstanding as of March 31, 2006 and September 30, 2005, respectively. As of March 31, 2006, option ARM loans with a balance of $3.1 billion had negative amortization with approximately $37.3 million of their principal balances above their original principal balance resulting from negative amortization. As of September 30, 2005, option ARM loans with a balance of $2.0 billion had negative amortization with approximately $12.4 million of their principal balances above their original principal balance resulting from negative amortization.
Option ARM loans represented 56.8% and 48.0% of total loans outstanding as of June 30, 2006 and September 30, 2005, respectively.

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As of June 30, 2006, option ARM loans with a balance of $4.0 billion, representing 67% of the option ARM portfolio, had $57.5 million of negative amortization above their original principal balance. As of September 30, 2005, option ARM loans with a balance of $2.0 billion, representing 53% of the option ARM portfolio, had negative amortization of $12.4 million above their original principal balance.

Option ARMs allow the mortgage holder to skip making principle payments and only pay the interest due. The unpaid principle is deferred and added to the mortgage balance, which can make the loan into a negative amortization loan. That is, the homeowner will have a mortgage balance greater than when the loan was taken out. People take many of these types of loans out because it is the only way that they can afford to buy the property in the first place. Given the huge run-up in housing and condominium prices in Florida over the past few years, it is not surprising that people resorted to these loans.

From September 30, 2005 to March 31, 2006 **negative amortization has tripled** from $12.4 million to $37.3 million while Option ARM loan balances only went up 55%. **Negative amortization has increased 363.7% from $12.4 million to $57.5 million during the last nine months while the corresponding loan balances went up 100% from $2.0 billion to $4.0 billion. Obviously a lot of their borrowers are choosing, or being forced, to only pay principle on their loans.** Are these borrowers likely to default at higher rates than other mortgage holders? We believe so.

Option ARMs can be great when prices are rising and interest rates are low, but they can be a disaster when prices stall or decline and interest rates rise. Both of these things are occurring in Florida now. When prices of housing rise, the loan holder can always refinance or sell the property at a profit and pay off the balance, even if it is negative. The increase in price covers the higher mortgage balance. But when prices stall or decline, selling the property may not cover the loan balance. If you add in real estate agents commissions to sell the property it becomes even more difficult. That of course assumes that they can even sell the property. Many sellers in Florida are stuck with property that they cannot sell even at much lower prices. In short, they were the greater fools. Inventories have quadrupled according to some south Florida brokers. There are 50,000 condominiums currently being or about to be built in South Florida. This entire inventory will depress prices.

The only thing that would be worse than not being able to sell your property at a loss is to have the interest rate reset at a much higher rate. Now, you have a property that you cannot sell AND the monthly payments are going higher, and you probably could barely afford to make the payment before the payment was reset higher.

Already there are stories in the news of people that have these Option ARMs that are now saying that they did not understand the loans when they took them out. Many times the loan officer looked the other way in regards to proper income verification and documentation. Indeed many of these types of loans were marketed as "No Doc" loans. Many buyers themselves lied about their income levels in order to obtain the loan. We believe, as more horror stories emerge in this area, that these types of loans will become a lot less popular.

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Reserves

The only thing worse than making the riskiest type of mortgage loans in a bubble location, would be not to have enough loan loss reserves. BKUNA does not have adequate reserves in our opinion. In the most recent quarter, BKUNA had total loan loss reserves of $1.2 million! BKUNA's residential loan portfolio grew by over $2.5 billion in the last twelve months. Even on an annualized basis, BKUNA's loan loss reserves are less than 4/10ths of one percent of the last twelve months residential loan portfolio growth.

The lower the loan loss reserves are, the higher BKUNA's earnings will be. So there is intense pressure to keep them as low as possible. In the most recent quarter ended June 30, 2006 **BKUNA LOWERED their loan loss provision by 47.8% from the previous quarter, from $2.3 million to $1.2 million** despite total 1 to 4 family residential loans increasing 8.8% from $8.262 billion to $8.99 billion.

So, they lowered their loan loss provision by 47.8%, while negative amortization increased 54.1% sequentially in the quarter ended June 30, 2006 from $37.3 million to $57.5 million. Kind of makes their earnings per share number meaningless in our opinion.

From the 10Q:
"Factors affecting the estimate of the allowance for loan losses include quantitative factors such as historical loss rates on segments of the portfolio, the evaluation of asset quality and management's assessment of qualitative factors that are not reflected in the historical loss experience."

We believe that historical loss rates are meaningless with these Option ARMs. They have only really existed in a bubble environment where prices only went up. There is no past housing bust to draw experience from because these types of loans did not exist. We also believe that the potential default rates on Option ARMs will be far higher than conventional fixed rate loans have experienced in the past. Further we believe that federal regulators will at some point in the near future require lenders to boost loan loss reserves on these Option ARMs and other similar exotic loans. There will be more and more stories of borrowers defaulting and claiming that they did not understand these loans and there will be demand for reforms.

If you are a borrower and put little to nothing down on a property and now the price has declined substantially, there is a huge incentive to walk away and mail back the keys to the bank. These are known as "Jinglers" in the industry, because the keys jingle in the envelope. We remember the savings and loan crisis in the early 1990's where this occurred and these Option ARMs did not even exist then.

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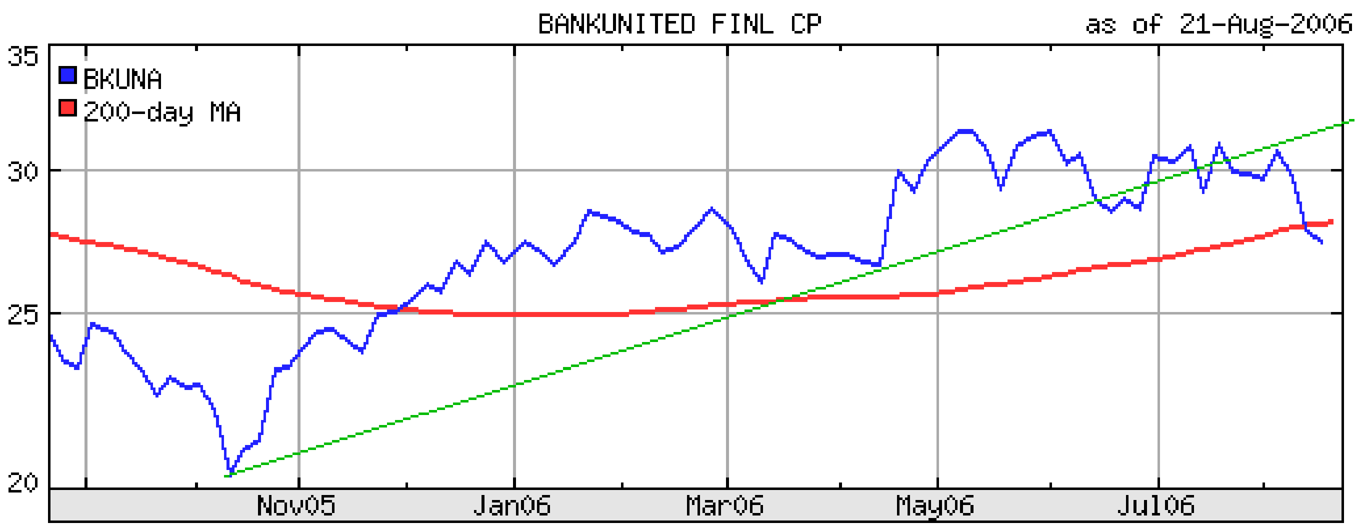
Conclusion

BKUNA has shown very good growth in loans and net interest income over the past several quarters. Net interest income increased 72% from last year from $38.8 million to $66.8 million in the quarter ended June 30, 2006. Sequentially, net interest income increased 12% from $59.8 million. Non-interest income came close to tripling compared to last year. Net interest margin increased from 1.66% to 2.18%. Average loan balances rose 43% and deposits increased 38%. Revenue has increased significantly, see above chart.

However, a lot of their numbers are based on assumptions that we do not agree with. Given the recent rapid growth in loan balances there should be a corresponding increase in loan loss reserves, especially since a majority of their loans are exotic mortgages.

BKUNA is operating in the epicenter of the housing bubble. They sell the riskiest mortgage product there is. Their loan loss reserves are nowhere close to where they will need to be over the next year. While their loans outstanding are increasing, their loan loss reserves are decreasing at the same time that the negative amortization has tripled in the last nine months. The tripling of the negative amortization tells us that their borrowers are close to the edge. Given the downturn in South Florida real estate and the untested option ARMs in a down market, we believe that BKUNA will be forced to dramatically increase loan loss reserves at the same exact time that demand for loans cools. This is a negative double edge sword that could cause their earnings to decline substantially. Those wonderful margins and growth can turn lower in a hurry. We urge investors to sell with a price target of $15 to $17 within twelve months.



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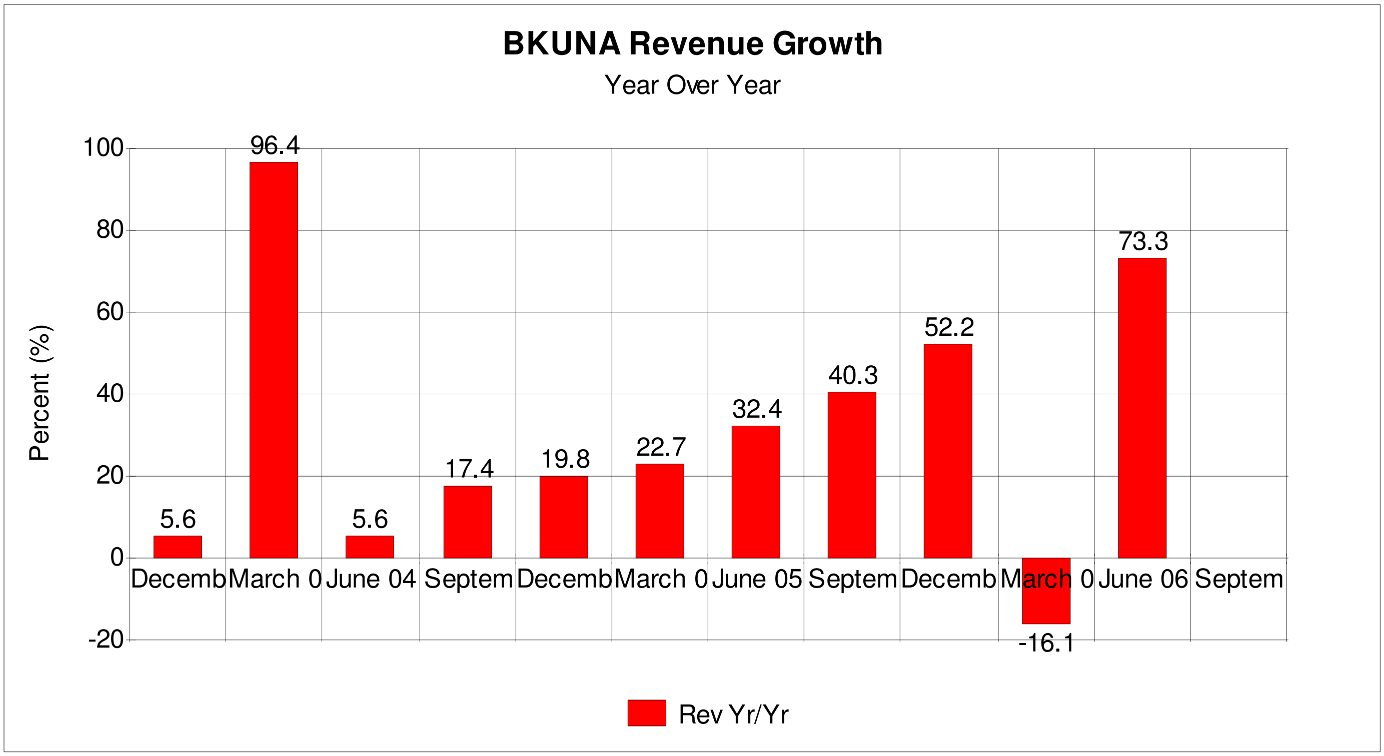

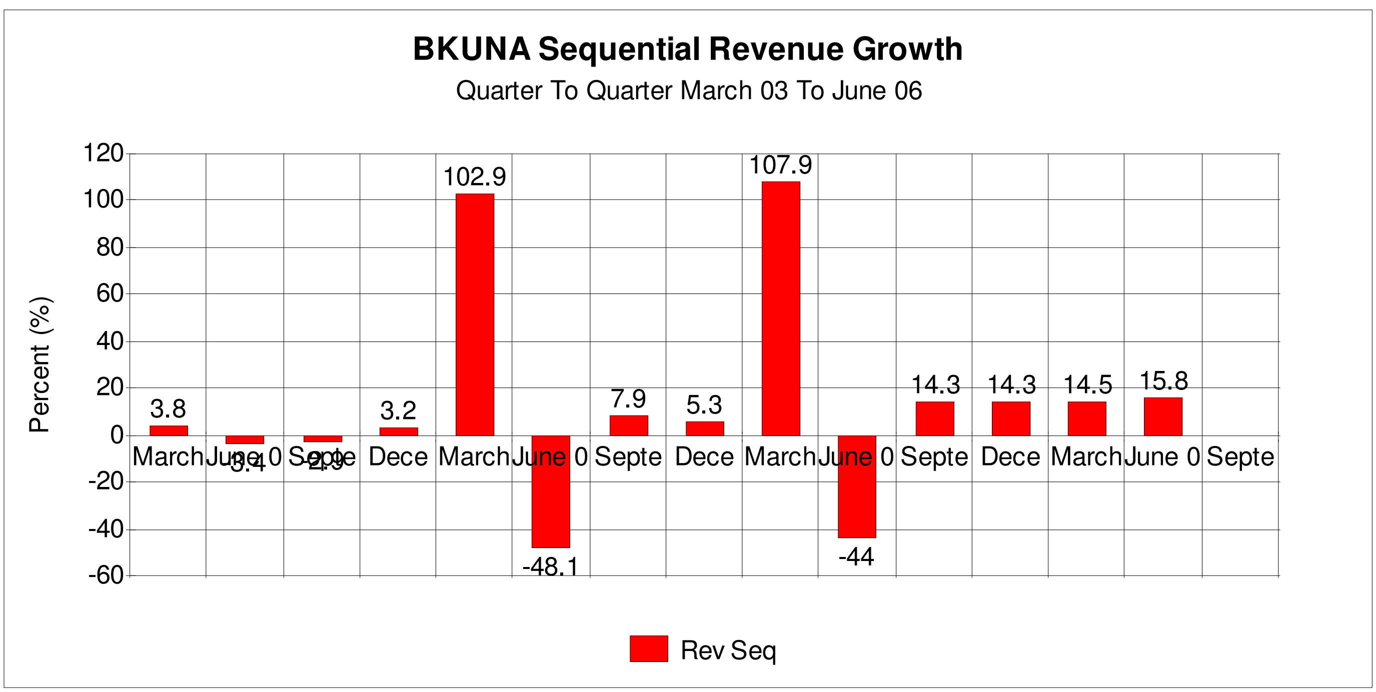

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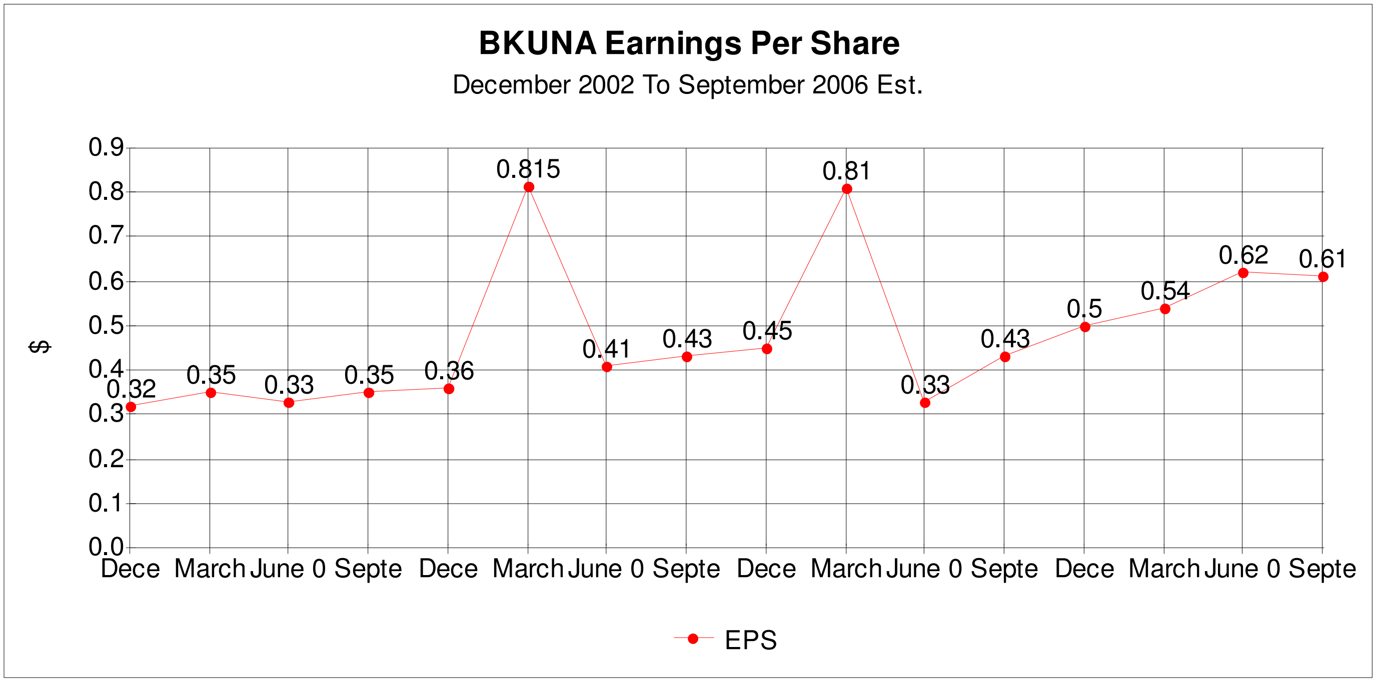

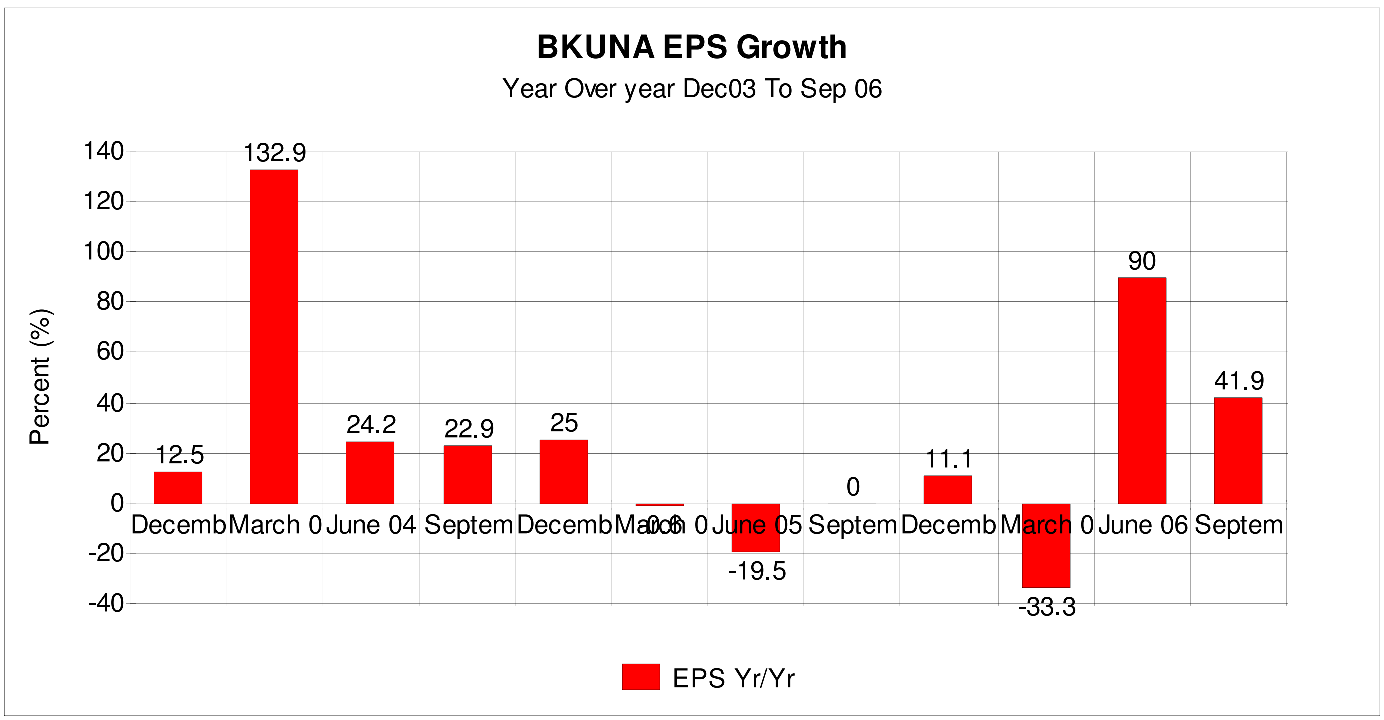

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